

Governmental Accounting Standards Board (GASB), Statement No. 83, Certain Asset Retirement Obligations (GASB 83)

GASB 83 provides guidance on the accounting and financial reporting for certain asset retirement obligations, which represent legally enforceable liabilities associated with the retirement of tangible capital assets. This statement is effective for financial statements with period ending June 30, 2020.

Asset Retirement Obligation (ARO)

An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability (and a corresponding deferred outflow of resources) based on the guidance in this Statement. The term retirement in this guidance refers to when the asset is permanently removed from service.

Common tangible capital assets that may have AROs include, but are not limited to the following:

- Nuclear reactors
- Crude oil drilling facilities
- Water and sewage treatment plants
- X-ray or magnetic Resonance Imaging (MRI) machines
- Electric power generation facilities (power plants)
- Underground fuel, oil, or chemical storage tanks
- Gas or oil transmission and distribution mains (pipelines)
- Reclamation of mining operations

Recognition

GASB 83 requires presence of *both* an internal and external obligating event to determine if an asset has an ARO.

- An internal obligating event is present if contamination is present (such as nuclear contamination), or, if no contamination is present, an internal obligating event is still present if the asset has been placed into operation and a portion of its usable capacity has been consumed.
- An external obligating event is present when certain retirement activities are made legally enforceable by any of the following:
 - New or existing federal, state, or local laws or regulations
 - Creation of a legally binding contract
 - Issuance of a court judgement

When an ARO is recognized, a government should also recognize a corresponding deferred outflow of resources to cover the future ARO liability. The deferred outflow of resources should then be amortized over the remaining useful life of the asset and the ARO will be reduced as outlays to liquidate the obligation are incurred.

Exceptions to Reporting Asset Retirement Obligations (AROs)

The statement **does not apply** to the following:

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- Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset
- Obligations associated with the preparation of a tangible capital asset for an alternative use
- Obligations for pollution remediation, such as asbestos removal, that result from the other-than-normal operation of a tangible capital asset
- Obligations associated with maintenance, rather than retirement, of a tangible capital asset
- The cost of a replacement part that is a component of a tangible capital asset
- Landfill closure and postclosure care obligations, including those not covered by GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*
- Conditional obligations to perform asset retirement activities

Measurement

GASB 83 requires that an ARO be measured based on the best estimate of the current value of outlays expected to be incurred. Current value refers to the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period. This best estimate should be determined using all available evidence.

Minority Ownership

When a government has minority ownership in an asset (owning less than 50 percent), the minority share of the ARO should be reported using the measurement produced by the majority owner. In addition, guidance of another recognized accounting standards setter should be followed if the majority owner is a nongovernmental entity.

If your agency/department has determined to have potential asset retirement obligation, please contact SARD GAAP Reporting at SGR@sco.ca.gov.